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INFO RUCPCIM/CIMS NTDB WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
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RUEHAK/AMEMBASSY ANKARA 1954
RUEHBUL/AMEMBASSY KABUL 0237
RUEHNE/AMEMBASSY NEW DELHI 0367
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UNCLAS SECTION 01 OF 02 ALMATY 002887

SIPDIS

DEPT FOR SCA/CEN MUDGE
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A
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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, JULY 23 -
August 5, 2006

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¶1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- Vneshtorgbank Targets Kazakhstan's Market
-- KazZhelDorTrans Plans IPO in 2007
-- Economic Statistics
-- EITI Reporting Forms to Be Approved in Kazakhstan
-- Pavlodar Refinery to Produce Euro Standards Petroleum
-- KMG to Participate in "Ventspils Nafta" Privatization
-- Mobilex Receives Sixth Oil Tanker

Vneshtorgbank Targets Kazakhstan's Market

¶2. President Nazarbayev met on July 25 with Andrei Kostin, CEO of Vneshtorgbank, a leading Russian bank. According to the CEO, the company is seeking large investment project in various fields, including gas processing and oil refining, telecommunications, real estate, and power engineering. Vneshtorgbank is also planning to acquire a Kazakhstani bank by the end of the year as well as to finance the construction in Astana of a major commercial development. (Interfax - Kazakhstan, July 26)

KazZhelDorTrans Plans IPO in 2007

¶3. KazZhelDorTrans (KZDT), a freight service subsidiary of Kazakhstan's national railway company, Kazakhstan Temir Zholy, plans concurrent initial public offerings (IPO) of its shares on the London Stock Exchange and the Kazakhstani Stock Exchange. In July 2006, Standard & Poor's assigned KZDT its "BB+" long-term corporate credit rating with a stable outlook. (Interfax - Kazakhstan, August 4)

Economic Statistics

¶4. The GOK's mid-term fiscal program, spanning 2007-2009, outlines a gradual reduction of budget spending from 25% of the GDP in 2007 to 23.2% in 2009. Spending on law enforcement, the judiciary, and the penitentiary system will decrease from 2.3% to 1.7% of the GDP by 2009. The GOK's spending on utilities will nearly halve from 1.4% of the GDP in 2007 to 0.8% in 2009. However, social expenditures will be maintained at approximately the same level, according to the following 2009 targets: education - 4.1% of the GDP, healthcare - 3%, and social benefits/welfare - 5.1%.

(Interfax - Kazakhstan, August 1)

¶5. Kazakhstan's commercial banks earned a profit of KZT 66.9 billion (\$566.3 million) in the first six months of 2006, a 90.6% year-on-year increase. According to the Financial Supervision Agency (FSA), as of July 1, aggregate equity capital of the banking sector was KZT 770 billion (\$6.5 billion), a 31.7% increase from January 1. The banking sector's total amounted to KZT 5,508 billion (\$46.6 billion), a 22% increase from January 1. (Interfax - Kazakhstan, July 24)

¶6. FSA reported that the capital accumulated in pension savings funds (PSFs) stood, as of July 1, at KZT 770.8 billion (\$6.5 billion), having grown by 18.8% over the first six months of 2006. The average weighted nominal return for the funds amounted, over the period of June 2003 to June 2006, to 23.3%, compared with the 25.6% rate of inflation for the same period. Currently, 14 pension funds operate in Kazakhstan. (Interfax - Kazakhstan, July 24)

¶7. According to an FSA press release, Kazakhstani insurance companies collected KZT 54.8 billion (\$464 million) in premiums in the first half of 2006, a 75.6% increase over the same period of 2005. Premiums on mandatory insurance

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coverage comprised KZT 5.7 billion (\$48.3 million) or 10.4% of the total premium volume. Claims paid by insurance companies totaled KZT 5.5 billion (\$46.5 million), a 17.2% year-on-year increase. (Interfax - Kazakhstan, July 25)

EITI Reporting Forms to Be Approved in Kazakhstan

¶8. The National Council for Implementation of the Extractive Industry Transparency Initiative (EITI) in Kazakhstan plans to approve the reporting forms for extractive companies on August 11-12. Initially, the Council considered adopting forms pioneered in Azerbaijan, but the NGO coalition "Oil Revenues - Under Public Oversight!" proposed forms which would require disaggregated data. "We want companies to account for not only direct payments to the budget but also for indirect, including fines and social transfers," NGO coalition representative in the National Council Isabekov stated. The first report on EITI implementation was supposed to be presented in October, but the date will likely be postponed because of disagreements over report forms. The National Council is comprised of representatives from the Energy Ministry, the NGO coalition, private companies, and members of the Parliament. (Interfax - Kazakhstan, August 4)

Pavlodar Refinery to Produce Euro Standards Petroleum

¶9. The Pavlodar oil refinery will produce more environmentally-friendly fuels, which comply with the EURO-3 and EURO-4 standards. For that purpose a \$40-million hydrogen-producing installation is being constructed and will be operational by the end of 2007. The new installation is being constructed by the American company "Koch-Glitsch". (Oil Review, August 1)

KMG to Participate in "Ventspils Nafta" Privatization

110. According to press-service of national oil and gas company KazMunayGas (KMG), KMG is considering the possibility of participating in a tender for 38.62% of shares of Latvian "Ventspils Nafta" (VN). On November 11, 2005 the government of Latvia adopted a decision that 38.62% of VN shares owned by the state would be sold through the Riga stock exchange. The tender is expected to take place before the end of summer. (Oil Review, July 26)

Mobilex Receives Sixth Oil Tanker

111. On August 1, Vyborg Shipyard (Russia) set afloat the sixth, and last, 12,000-ton deadweight "Makhambet" tanker tailored for Kazakhstan's Mobilex Energy. As previously reported, the first vessels in the set, "Astana" and "Almaty," were delivered to the customer in the first half of 2005; the second vessels -- "Kazakhstan" and "Abay" - at the end of 2005. Currently, the shipyard is preparing the "Aktau" for transfer to the customer. Mobilex Energy, established in 2002, is engaged in transportation of hydrocarbons from the Caspian port of Aktau to Makhachkala and Baku. It transships 1.2 million of tons of oil monthly. (Interfax - Kazakhstan, August 2)

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